

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Shelby Township	County Oceana
Audit Date 3/31/06	Opinion Date 6/21/06	Date Accountant Report Submitted to State: 7/14/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

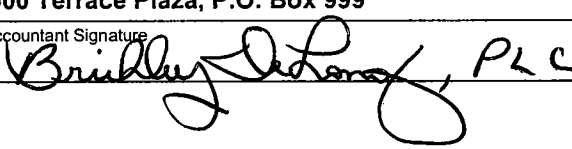
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza, P.O. Box 999		City Muskegon	State MI
		ZIP 49443-0999	
Accountant Signature 		Date 7/14/06	

Shelby Township
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2006

Shelby Township
LIST OF ELECTED OFFICIALS
March 31, 2006

Supervisor..... Samuel Flemming

Clerk.....Robert F. Pochyla

Treasurer.....Julie Near

TrusteesCindy Rapes
Kenneth Near

Shelby Township

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As management of Shelby Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Shelby Township for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

The General Fund fund balance increased \$83,426.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public works, community and economic development and cultural and recreational activities. The Township does not currently have any business-type activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories—governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

Shelby Township maintains one governmental fund, the General Fund.

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the government-wide financial statements.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Township's net assets from governmental activities totaled \$1,101,269.

The increase in current assets reflects the increase in unrestricted net assets.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$952,975. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Current assets and other assets	\$ 952,975	\$ 869,549
Capital assets	148,294	143,849
Total assets	1,101,269	1,013,398
Net assets		
Invested in capital assets	148,294	143,849
Unrestricted	952,975	869,549
Total net assets	\$ 1,101,269	\$ 1,013,398

Governmental Activities

Governmental activities increased by \$87,871 during the 2006 fiscal year. Capital grant revenues are new this year as the Township received a grant to purchase new voting machines. Property taxes increased due to growth in the Township's taxable value and investment earnings increased due to higher interest rates. Public works expenses decreased substantially because the Township paved 64th Avenue in the previous year. The following table depicts these occurrences.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues:		
Program revenues		
Charges for services	\$ 2,433	\$ 3,940
Operating grants	3,172	2,830
Capital grants	9,600	-
General revenues		
Property taxes	122,533	111,142
Grants and contributions not restricted	112,768	113,678
Unrestricted investment earning	19,860	14,993
Miscellaneous	3,383	6,174
Total revenues	<u>273,749</u>	<u>252,757</u>
Expenses:		
General government	146,303	140,481
Public works	20,627	177,079
Community and economic development	17,634	12,477
Culture and recreation	1,314	1,314
Total expenses	<u>185,878</u>	<u>331,351</u>
Change in net assets	87,871	(78,594)
Net assets - Beginning	<u>1,013,398</u>	<u>1,091,992</u>
Net assets - Ending	<u>\$ 1,101,269</u>	<u>\$ 1,013,398</u>

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Township's only governmental fund, the General Fund, reported an unreserved fund balance of \$952,975. The unreserved balance represents what is available for spending at the Township's discretion. The General Fund does not have any fund balance that is reserved, which means that all fund balance is available for new spending.

General Fund Budget

During the current fiscal year, the Township only made a couple of minor amendments to its original budget.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Property tax revenues were under budget by \$20,967 because of an overestimate of collections at the time the original budget was adopted.
- Investment earnings were over budget by \$18,360 because interest earned on certificates of deposit was not included in the budget.
- Street improvements were under budget by \$51,050 because expected projects were deferred to the following year.
- Other governmental functions were under budget by \$28,016 because the Township did not use most of its contingency budget.

Capital Assets

Shelby Township investment in capital assets for its governmental activities as of March 31, 2006 totaled \$148,294 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements and furniture and equipment.

The only significant capital asset additions during the current year were two new voting machines obtained with a grant.

**Capital Assets
(Net of Accumulated Depreciation)**

	Governmental Activities 2006	Governmental Activities 2005
Land	\$ 34,900	\$ 34,900
Buildings and improvements	103,454	107,249
Furniture and equipment	9,940	1,700
Total	<u>\$ 148,294</u>	<u>\$ 143,849</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

General Economic Overview

Shelby Township has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Township's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised over 90% of the General Fund's revenue sources. In fiscal 2007, state revenue sharing is expected to remain flat and property tax revenues are expected to increase by approximately 3 to 4 percent.

The Township expects General Fund expenditures in 2007 to be lower than the 2006 expenditures. The Board does not plan to have any major capital outlays or other significant or unusual transactions and expects an increase in fund balance in the General Fund.

Requests for Information

This financial report is designed to provide a general overview of Shelby Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Shelby Township, P.O. Box 215, Shelby, Michigan 49455 (231) 861-5853.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 21, 2006

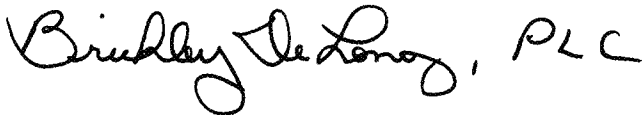
Township Board
Shelby Township
Shelby, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shelby Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Township, as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vi and 17 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Shelby Township
STATEMENT OF NET ASSETS
March 31, 2006

ASSETS

	<u>Governmental activities</u>
CURRENT ASSETS	
Cash and investments	\$ 921,291
Receivables	13,080
Due from other governmental units	<u>18,604</u>
Total current assets	952,975
 NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	34,900
Depreciable	<u>113,394</u>
Total noncurrent assets	<u>148,294</u>
Total assets	1,101,269
 NET ASSETS	
Invested in capital assets	148,294
Unrestricted	<u>952,975</u>
Total net assets	<u><u>\$ 1,101,269</u></u>

The accompanying notes are an integral part of this statement.

Shelby Township
STATEMENT OF ACTIVITIES
For the year ended March 31, 2006

<i>Functions/Programs</i>	Expenses	Program Revenue			Net (Expense) Revenue and Chang in Net Assets
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities
Governmental activities					
General government	\$ 146,303	\$ 925	\$ 3,172	\$ 9,600	\$ (132,606)
Public works	20,627	683	-	-	(19,944)
Community and economic development	17,634	825	-	-	(16,809)
Culture and recreation	1,314	-	-	-	(1,314)
Total governmental activities	<u>185,878</u>	<u>2,433</u>	<u>3,172</u>	<u>9,600</u>	(170,673)
General revenues					
Property taxes, levied for general purposes					122,533
Grants and contributions not restricted to specific programs					112,768
Unrestricted investment earnings					19,860
Miscellaneous					<u>3,383</u>
Total general revenues					<u>258,544</u>
Change in net assets					87,871
Net assets at April 1, 2005					<u>1,013,398</u>
Net assets at March 31, 2006					<u>\$ 1,101,269</u>

The accompanying notes are an integral part of this statement.

Shelby Township
BALANCE SHEET
Governmental Funds
March 31, 2006

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 921,291
Taxes receivable	13,080
Due from other governmental units	<u>18,604</u>
Total assets	<u>\$ 952,975</u>
 FUND BALANCE	
Unreserved	<u>\$ 952,975</u>

The accompanying notes are an integral part of this statement.

Shelby Township
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2006

Total fund balance—governmental funds	\$	952,975
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$	162,339	
Accumulated depreciation		<u>(14,045)</u>	<u>148,294</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>1,101,269</u></u>
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The accompanying notes are an integral part of this statement.

Shelby Township
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Governmental Funds
 For the year ended March 31, 2006

	General Fund
REVENUES	
Property taxes	\$ 122,533
Licenses and permits	925
Intergovernmental revenues - state	115,940
Charges for services	825
Investment earnings	19,860
Other	4,066
Total revenues	264,149
EXPENDITURES	
Current	
General government	140,634
Public works	20,627
Community and economic development	17,634
Culture and recreation	1,314
Other governmental functions	514
Total expenditures	180,723
Net change in fund balance	83,426
Fund balance at April 1, 2005	869,549
Fund balance at March 31, 2006	\$ 952,975

The accompanying notes are an integral part of this statement.

Shelby Township
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**
For the year ended March 31, 2006

Net change in fund balance—total governmental funds	\$ 83,426
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	(5,155)
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Contributions of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds.

9,600
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Change in net assets of governmental activities	\$ <u><u>87,871</u></u>
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The accompanying notes are an integral part of this statement.

Shelby Township
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
March 31, 2006

	<u>Trust and Agency</u>	<u>Current Tax</u>	<u>Total agency funds</u>
ASSETS			
Cash and investments	\$ 352	\$ 30,048	\$ 30,400
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES			
Due to other governmental units	\$ 352	\$ 30,048	\$ 30,400
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of this statement.

Shelby Township
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Shelby Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

Shelby Township (Township) is a common law township governed by an elected five-member board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Shelby Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund type:

The Agency Funds account for all assets held by the Township on behalf of others in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Shelby Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Township totaled approximately \$73,905,000. The ad valorem taxes levied consisted of 1.2231 mills for the Township's operating purposes. These amounts are recognized in the General Fund.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-10

Shelby Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first week of March, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Not later than the last week in March, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level.

Shelby Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

During the year ended March 31, 2006, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Township Board	\$ 45,000	\$ 49,254
Supervisor	10,000	11,373
Clerk	14,000	14,912
Planning and zoning	15,970	17,634

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Township does not have any investments exposed to concentration of credit risk.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, \$659,909 of the Township's bank balance of \$979,193 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have any investments exposed to custodial credit risk.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

Shelby Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 34,900	\$ -	\$ -	\$ 34,900
Capital assets, being depreciated:				
Buildings and improvements	115,839	-	-	115,839
Furniture and equipment	2,000	9,600	-	11,600
Total capital assets, being depreciated	117,839	9,600	-	127,439
Less accumulated depreciation:				
Buildings and improvements	8,590	3,795	-	12,385
Furniture and equipment	300	1,360	-	1,660
Total accumulated depreciation	8,890	5,155	-	14,045
Total capital assets, being depreciated, net	108,949	4,445	-	113,394
Capital assets, net	\$ 143,849	\$ 4,445	\$ -	\$ 148,294

Depreciation

Depreciation expense was charged to the general government function.

NOTE E—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

Shelby Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE F—PENSION PLANS

The Township provides pension benefits for its supervisor, treasurer, clerk and certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan is administered through Edward Jones, an independent third party. Both the Township and employees are required to contribute an amount equal to 3 percent of the qualified employees' annual compensation each plan year. For the year ended March 31, 2006, pension expense was approximately \$1,700. Employee contributions were approximately \$3,500.

NOTE G—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent approximately 43 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Shelby Township
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 143,500	\$ 143,500	\$ 122,533	\$ (20,967)
Licenses and permits	-	-	925	925
Intergovernmental revenues - state	110,000	110,000	115,940	5,940
Charges for services	-	-	825	825
Investment earnings	1,500	1,500	19,860	18,360
Other	10,000	10,000	4,066	(5,934)
Total revenues	265,000	265,000	264,149	(851)
EXPENDITURES				
Current				
General government				
Township board	45,000	45,000	49,254	(4,254)
Supervisor	10,000	10,000	11,373	(1,373)
Treasurer	25,000	25,000	24,388	612
Assessor	35,000	35,000	27,165	7,835
Clerk	14,000	14,000	14,912	(912)
Elections	6,000	6,000	4,180	1,820
Cemetery	10,000	10,000	7,885	2,115
Board of review	1,500	1,500	1,477	23
Public works				
Street improvements	70,000	70,000	18,950	51,050
Landfill	1,000	1,000	589	411
Streetlights	1,500	1,500	1,088	412
Community and economic development				
Planning and zoning	15,000	15,970	17,634	(1,664)
Culture and recreation				
Library	1,500	1,500	1,314	186
Other governmental functions	29,500	28,530	514	28,016
Total expenditures	265,000	265,000	180,723	84,277
Net change in fund balance	\$ -	\$ -	83,426	\$ 83,426
Fund balance at April 1, 2005			869,549	
Fund balance at March 31, 2006			\$ 952,975	